

Report  
of the  
Examination of  
Northwestern Long Term Care Insurance Company  
Milwaukee, Wisconsin  
As of December 31, 2002

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# State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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September 11, 2003

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Honorable Jorge Gomez  
Commissioner of Insurance  
State of Wisconsin  
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Commissioners:

In accordance with your instructions, a compliance examination has been made of  
the affairs and financial condition of:

NORTHWESTERN LONG TERM CARE INSURANCE COMPANY  
Milwaukee, WI

and this report is respectfully submitted.

## I. INTRODUCTION

The previous examination of the company was conducted in 1998 as of  
December 31, 1997. The current examination covered the intervening period ending  
December 31, 2002, and included a review of such 2003 transactions as deemed necessary to  
complete the examination.

The examination consisted of a review of all major phases of the company's operations, and included the following areas:

- History
- Management and Control
- Corporate Records
- Conflict of Interest
- Fidelity Bonds and Other Insurance
- Employees' Welfare and Pension Plans
- Territory and Plan of Operations
- Affiliated Companies
- Growth of Company
- Reinsurance
- Financial Statements
- Accounts and Records
- Data Processing

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The section of this report titled "Summary of Examination Results" contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

#### **Independent Actuary's Review**

Independent actuaries were engaged under a contract with the Office of the Commissioner of Insurance. They reviewed the adequacy of aggregate life and accident and health reserves, dividends to policyholders, cash flow testing, deferred and uncollected premiums

for life insurance, due and uncollected premiums for health insurance, and in force testing. The results of their work were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the actuaries' conclusion.

## **II. HISTORY AND PLAN OF OPERATION**

The company was organized in Illinois in 1953 as the Poulsen Insurance Company of America. In 1969, the Standard of America Financial Corporation (Delaware) acquired the company and changed its name to the Standard of America Life Insurance Company. In 1977, the Sundstrand Corporation (Delaware) acquired the company. In 1982, the Northwestern Mutual Life Insurance Company (NML) acquired the company by purchasing all of its outstanding shares from the Sundstrand Corporation. Effective October 10, 1997, the company redomesticated from Illinois to Wisconsin and the company's name was changed to Northwestern Long Term Care Insurance Company (NLTC). NML continues to own 100% of the outstanding shares of NLTC. NML was examined concurrently with NLTC.

Prior to August 1998, NLTC's insurance business consisted of paying benefits on supplementary contracts purchased by contract owners from NLTC prior to 1996. In August 1998, NLTC began selling its first long-term care insurance product, QuietCare. QuietCare reimburses the insured for long-term care services up to a specified daily limit, ranging from \$50 to \$300 per day. The policyholder can receive reimbursement for some or all of the costs of care received at home, at an adult day care center, at an assisted living facility, or at a nursing home. Benefits begin after the policyholder has accrued either 90 or 180 days (chosen at time of purchase) of qualifying expenses. The policyholder can elect to receive benefits for three years, six years, or for life. The policy includes a waiver of premium provision. The policy is guaranteed renewable, but if experience by rating class deviates from expectations, NLTC will have the right to increase premiums (subject to state approvals, where required). It is available to individuals 18 to 79 years old. NLTC reinsured 80% of this business in order to limit its exposure to loss on any single insured and to recover a portion of benefits paid.

A new long-term care insurance product, QuietCare RS, was introduced in March 2002 and includes dividend participation, alternate living facility reimbursement up to 100% of the Nursing Home daily benefit, and a Caregiver Training benefit. Certain features of the new contract were made available to existing policyowners with no increase in current premiums. Since the new participating feature was provided to existing policyowners, all in-force policies are

now participating. The new product is not reinsured. QuietCare RS is marketed through NML's career agent distribution system consisting of 8,000 agents.

The company is licensed in all 50 states and the District of Columbia. The percentage of direct premiums written in various states was as follows:

<b>State</b>	<b>Direct Premium*</b>	<b>% of Total</b>
Wisconsin	\$ 3,223,233	10%
Illinois	2,738,162	9
California	1,990,350	6
Florida	1,765,223	6
Michigan	1,620,621	5
Ohio	1,496,771	5
Utah	1,324,032	4
North Carolina	1,234,806	4
All others	<u>15,676,016</u>	<u>51</u>
Totals	<u>\$31,014,712</u>	<u>100%</u>

\* Premiums are from Schedule T and do not include premium waived under disability or other contract provisions.

NLTC has no employees. It has contracted with NML for management and all administrative services not provided by its contracting administrator (see below). See the "Affiliated Companies" section of this report for information on the contract with NML.

Effective July 8, 1998, NLTC contracted with an unaffiliated administrator, Long Term Care Group, Inc (LTCG), to provide administrative and consulting services with regard to long-term care insurance. LTCG is a wholly owned subsidiary of Long Term Holdings, Inc., a closely held Delaware corporation located in California. According to the consolidated audit report for the two companies, LTCG began operations November 14, 1996, with the acquisition of the long term care administrative operations of a large national managed care company. LTCG was capitalized with \$16 million from a group of investors. LTCG derives most of its revenue from long-term contracts with the California Public Employees' Retirement System and Hewlett Packard. As of December 31, 2002, Long Term Holdings, Inc. reported in its consolidated audited financial statement assets of \$27,854,000, liabilities of \$5,328,000, and stockholders' equity of \$22,526,000. Operations for 2002 produced a net gain of \$12,476,000.

Services provided by LTCG include underwriting, policy issuance, billing, maintenance of records, and claims adjudication. Although LTCG is providing many services, NLTC retains all management authority with respect to these services. The contract calls for NLTC to pay LTCG for underwriting services based on the number of applications underwritten plus a percentage of first year premiums written. A maintenance fee is charged based on the number of policies in force. In addition, NLTC pays a claims adjudication fee based on the number of claims handled, and a claims management fee based on the number of people on claim each month.



### III. MANAGEMENT AND CONTROL

#### Board of Directors

The board of directors consists of six individuals elected annually to serve a one-year term. Members of the company's board of directors may also be members of other boards of directors in the holding company group. The board members currently receive no additional compensation for serving on the board.

Currently the board of directors consists of the following persons:

<b>Name</b>	<b>Principal Occupation</b>	<b>Residence</b>
John M. Bremer	Chief Operating Officer, NML	Waukesha, WI
Peter Wayne Bruce	Chief Insurance Officer, NML	Shorewood, WI
Ronald Dale Hagen	Vice President, NLTC	Mequon, WI
Richard Lewis Hall	Senior Vice President	Mequon, WI
William Carl Koenig	Senior Vice President and Chief Actuary, NML	Whitefish Bay, WI
Edward John Zore	President and CEO, NML	River Hills, WI

#### Officers of the Company

Officers are elected at the board's annual meeting. The officers serving at the time of this examination are as follows:

<b>Name</b>	<b>Office</b>	<b>Compensation*</b>
Edward John Zore	President and CEO	\$ 3,644,637
Robert Joseph Berdan	Secretary	595,616
Steven Tilton Catlett	Treasurer	367,518
William Carl Koenig	Chief Actuary	720,199
Peter Wayne Bruce	Chairman	1,795,152
Ronald Dale Hagen	Vice President	282,956

\* This amount represents the total compensation paid to the individual by NML.

#### **IV. AFFILIATED COMPANIES**

NLTC is a member of a holding company system, of which NML is the ultimate parent. The organizational chart following this section depicts the relationships among the affiliates in the group. A brief description of the significant affiliates of NLTC is given in the following paragraphs.

##### **The Northwestern Mutual Life Insurance Company**

NML owns 100% of the outstanding stock of NLTC. NML was organized in 1857 as The Mutual Life Insurance Company of the State of Wisconsin. The name was changed in 1865 to the current name. The company is licensed in all 50 states and the District of Columbia.

The major product marketed by the company is ordinary life insurance written on a participating basis. Other products include individual annuities, disability income insurance, and variable life insurance and variable annuities. The company also markets products that combine characteristics of whole life and term life insurance. The major products are marketed through the company's career agents.

As of December 31, 2002, NML's statutory annual statement reported admitted assets of \$102.9 billion, liabilities of \$95.7 billion, and surplus of \$7.2 billion. Operations for 2002 produced net income of \$176 million.

##### **Affiliated Agreements**

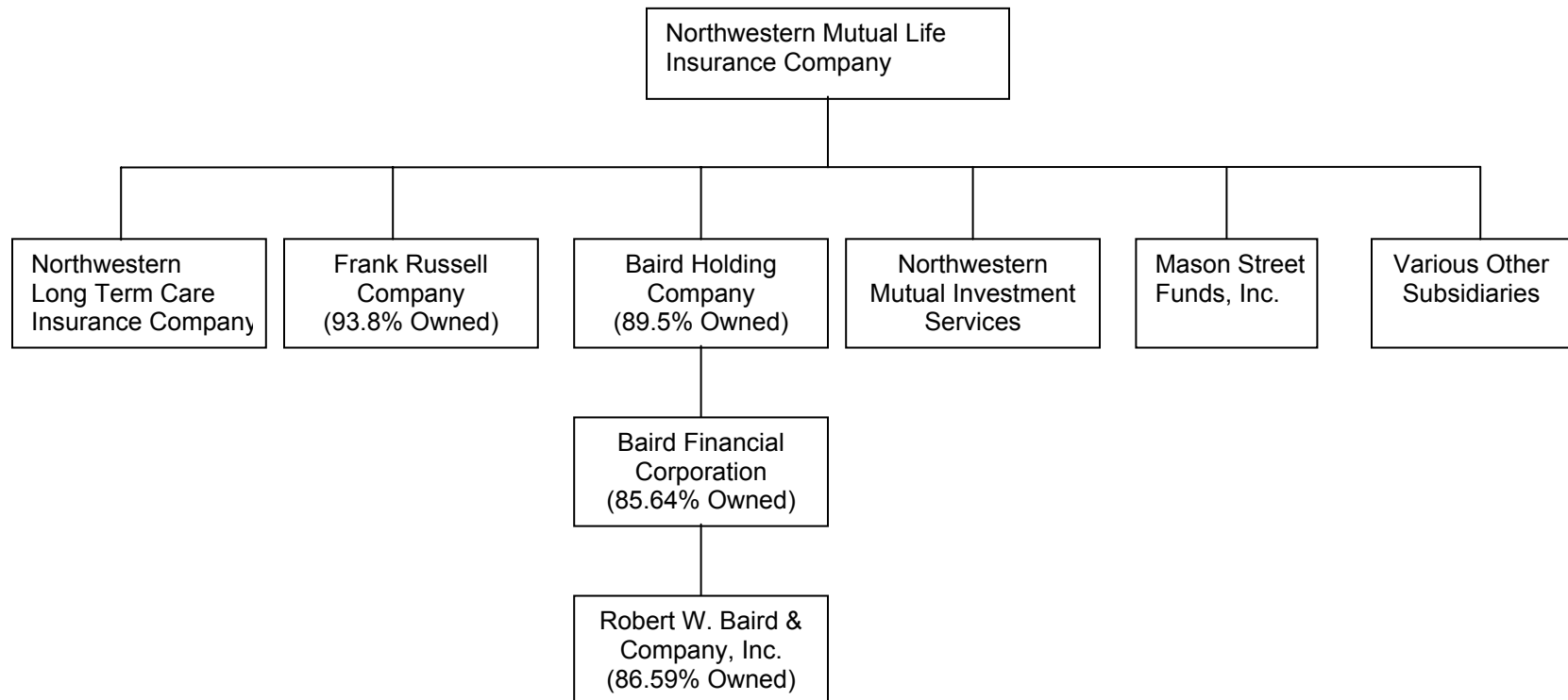
Pursuant to the introduction of QuietCare, NML and NLTC executed two agreements, which are described below.

Effective January 1, 1998, NML and NLTC entered into a Product and General Service Agreement, which replaced a previous service agreement. Under the terms of the current agreement, NML agreed to contribute to NLTC the long-term care product developed by NML at an amount that reflects NML's actual development expense. NLTC reported this transaction as a capital contribution. It expensed the development costs, and nonadmitted the related software. No goodwill was carried as a result of the transaction. In addition to the contribution of the product, NML agreed to provide all requested services including legal, accounting, investment, marketing, and information technology services as necessary for NLTC's operation.

Reimbursement for these services is based on actual expenses incurred and an allocation of shared costs based on the number of employee hours of service provided to each entity. The agreement also provides that rather than direct reimbursement from NLTC for future services, NML may choose to have its capital investment in NLTC increased by the value of the services rendered. This option was exercised for start-up costs incurred prior to the product's introduction in August 1998. Beginning in September 1998, NLTC began reimbursing NML for administrative expenses. The above agreement was executed with the consent of the Office of the Commissioner of Insurance.

Effective April 29, 1998, NML and NLTC entered into a Capital Support Agreement and Guarantee of Benefits under which NML agrees to maintain the capital and surplus of NLTC at a level that is greater than the lesser of a) 30% of earned premium plus 5% of the value of total net reserves, or b) 150% of the NAIC risk-based capital requirements applicable to NLTC. NML also guarantees to the policyholders of NLTC the ability of NLTC to pay all policy benefits due on contracts of insurance. The agreement terminates at the earlier of ten years from the effective date or at such time as NML has invested a total of \$400 million in NLTC. The guarantee to policyholders of NLTC survives the termination of the agreement. This agreement was executed with the consent of the Office of the Commissioner of Insurance

**The Northwestern Mutual Life Insurance Company  
Holding Company Chart  
as of December 31, 2002**



## **V. REINSURANCE**

As stated earlier, NLTC introduced its first long-term care product, QuietCare, in August of 1998. NLTC reinsured 80% of this business in order to limit its exposure to loss on any single insured and to recover a portion of benefits paid. An enhanced product, QuietCare RS, was introduced in March 2002 and includes dividend participation, alternative living facility reimbursement up to 100% of the nursing home daily benefit, and a caregiver training benefit. Since the new participating contract was made available to existing policyowners, all in force policies are now participating. This new product is not reinsured; however, NLTC and its policyholders are provided protection from a Capital Support Agreement and Guarantee of Benefits with its parent NML. See the section of this report titled "Affiliated Companies" for additional information on this and other affiliated contracts.

## **VI. FINANCIAL DATA**

The following financial statements reflect the financial condition of the company as reported in the December 31, 2002, annual statement to the Commissioner of Insurance. Also included in this section are schedules which reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination."

**Northwestern Long Term Care Insurance Company**  
**Assets**  
**As of December 31, 2002**

	<b>Assets</b>	<b>Nonadmitted Assets</b>	<b>Net Admitted Assets</b>
Bonds	\$ 55,907,383	\$ 0	\$ 55,907,383
Stocks:			
Preferred stocks	300,000		300,000
Common stocks	10,869,465		10,869,465
Cash	1,167,199		1,167,199
Short-term investments	1,798,975		1,798,975
Reinsurance ceded:			
Amounts recoverable from reinsurers	43,598		43,598
Commissions and expense allowances due	417,205		417,205
Experience rating and other refunds due			
Other amounts receivable under reinsurance contracts	7,782		7,782
Federal and foreign income tax recoverable and interest thereon	16,800,043	16,800,043	
Accident and health premiums due and unpaid	649,426	31,213	618,213
Investment income due and accrued	796,667		796,667
Write-ins for other than invested assets:			
Amounts receivable from guaranty associations	<u>3,285</u>	<u>          </u>	<u>3,285</u>
Total Assets	<u>\$ 88,761,028</u>	<u>\$ 16,831,256</u>	<u>\$ 71,929,772</u>

**Northwestern Long Term Care Insurance Company**  
**Liabilities, Surplus, and Other Funds**  
**As of December 31, 2002**

Aggregate reserve for life policies and contracts	\$ 992,391
Aggregate reserve for accident and health contracts	4,173,352
Contract claims:	
Accident and health	15,385
Premiums and annuity considerations received in advance	281,046
Contract liabilities not included elsewhere:	
Other amounts payable on reinsurance	1,645,397
Interest maintenance reserve	625,901
General expenses due or accrued	59,300
Taxes, licenses, and fees due or accrued, excluding federal income taxes	183,000
Remittances and items not allocated	1,409,087
Miscellaneous liabilities:	
Asset valuation reserve	557,579
Payable to parent, subsidiaries and affiliates	6,401,922
Payable for securities	<u>3,670</u>
Total Liabilities	16,348,030
Common capital stock	\$ 2,500,000
Gross paid in and contributed surplus	60,680,968
Unassigned funds (surplus)	<u>(7,599,226)</u>
Total Capital and Surplus	<u>55,581,742</u>
Total Liabilities, Capital and Surplus	<u>\$71,929,772</u>



**Northwestern Long Term Care Insurance Company**  
**Summary of Operations**  
**For the Year 2002**

Premiums and annuity considerations for life and accident and health contracts		\$11,346,876
Net investment income		3,570,221
Amortization of interest maintenance reserve		91,474
Commissions and expense allowances on reinsurance ceded		<u>6,855,969</u>
Total income items		21,864,540
Disability benefits and benefits under accident and health contracts	\$ 76,228	
Interest and adjustments on contract or deposit-type contract funds	2,631	
Payments on supplementary contracts with life contingencies	109,235	
Increase in aggregate reserves for life and accident and health contracts		<u>4,539,327</u>
Subtotal		4,727,421
Commissions on premiums, annuity considerations, and deposit-type contract funds (direct business only)	8,714,251	
General insurance expenses	22,554,596	
Insurance taxes, licenses, and fees excluding federal income taxes		<u>1,348,012</u>
Total deductions		<u>37,344,280</u>
Net gain from operations before dividends to policyholders and federal income taxes		(15,479,740)
Dividends to policyholders		<u>0</u>
Net gain from operations after dividends to policyholders and before federal income taxes		(15,479,740)
Federal income taxes incurred (excluding tax on capital gains)		<u>113</u>
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains or (losses)		(15,479,853)
Net realized capital gains or (losses) less capital gains tax		<u>(2,139,364)</u>
Net Income (Loss)		<u>\$(17,619,217)</u>

**Northwestern Long Term Care Insurance Company**  
**Cash Flow**  
**As of December 31, 2002**

Premiums and annuity considerations for life and accidentand health contracts		\$12,004,285
Net investment income		3,394,610
Commissions and expense allowances on reinsurance ceded		<u>7,435,629</u>
Total		22,834,524
Disability benefits and benefits under accident and health contracts	\$ 76,228	
Interest and adjustments on contract or deposit-typecontract funds	2,631	
Payments on supplementary contracts with life contingencies	<u>109,235</u>	
Subtotal	188,094	
Commissions on premiums, annuity considerations, and deposit type contract funds	8,714,251	
General insurance expenses	10,300,501	
Insurance taxes, licenses and fees, excluding federal income taxes	<u>1,324,012</u>	
Subtotal	20,526,858	
Federal income taxes (excluding tax on capital gains)	<u>113</u>	
Total deductions		<u>20,526,971</u>
Net cash from operations		2,307,553
Proceeds from investments sold, matured, or repaid:		
Bonds	14,517,508	
Stocks	4,396,823	
Net gains or (losses) on cash and short-term investments	(242)	
Miscellaneous proceeds	<u>(580,056)</u>	
Total	18,334,033	
Less: Cost of investments acquired (long-term only):		
Bonds	\$19,120,747	
Stocks	<u>3,625,909</u>	
Total investments acquired		<u>22,746,656</u>
Net cash from investments		(4,412,623)
Cash applied for financing and miscellaneous uses:		
Other applications		<u>(1,232)</u>
Net change in cash and short-term investments		(2,106,302)
<b>Reconciliation</b>		
Cash and short-term investments, December 31, 2001		<u>5,072,476</u>
Cash and short-term investments, December 31, 2002		<u>\$ 2,966,174</u>

**Northwestern Long Term Care Insurance Company  
Compulsory and Security Surplus Calculation  
December 31, 2002**

Assets		\$71,929,772
Less liabilities		<u>16,348,030</u>
Adjusted surplus		55,581,742
Annual premium:		
Individual life and health	\$14,590,556	
Factor	<u>15%</u>	
Compulsory surplus (subject to a \$2,000,000 minimum)		<u>2,188,583</u>
Compulsory surplus excess or (deficit)		<u>\$53,393,159</u>
Adjusted surplus		\$55,581,742
Security surplus:		
(140% of compulsory surplus, factor reduced 1% for		
each \$33 million in premium written in excess of		
\$10 million with a minimum of 110%)		<u>3,064,016</u>
Security surplus excess or (deficit)		<u>\$52,517,726</u>

**Northwestern Long Term Care Insurance Company**  
**Reconciliation and Analysis of Surplus**  
**For the Five-Year Period Ending December 31, 2002**

The following schedule is a reconciliation of total surplus during the period under examination as reported by the company in its filed annual statements:

	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>
Capital and surplus, beginning of year	\$57,516,603	\$57,775,428	\$65,708,739	\$63,884,606	\$61,721,408
Net income	(5,268,544)	(6,763,744)	(10,125,673)	(12,003,122)	(17,619,217)
Change in net unrealized capital gains or (losses)	884,437	1,231,585	356,626	(499,961)	(1,121,197)
Change in net deferred income tax				4,359,475	7,302,556
Change in non-admitted assets and related items	(663)	(5,166)	(7,268)	(4,368,504)	(7,915,364)
Change in liability for reinsurance in unauthorized companies	(44,056)	44,056			
Change in asset valuation reserve	(1,045,108)	(1,335,753)	(1,069,512)	462,652	2,496,272
Capital changes:					
Paid in	5,732,759	14,762,333	9,021,694	9,886,262	10,717,284*
Capital and surplus, end of year	<u>\$57,775,428</u>	<u>\$65,708,739</u>	<u>\$63,884,606</u>	<u>\$61,721,408</u>	<u>\$55,581,742</u>

\* During 2002, NML contributed \$10,717,284 of additional capital to NLTC in the form of development costs related to NLTC's long-term care product (valued at actual costs to NML). NLTC expensed these development costs in accordance with statutory accounting requirements.

**Northwestern Long Term Care Insurance Company**  
**Insurance Regulatory Information System**  
**For the Five -Year Period Ending December 31, 2002**

The following is a summary of NAIC Insurance Regulatory Information System (IRIS) results for the period under examination. Exceptional ratios are denoted with asterisks. A discussion of the exceptional ratios may be found after the IRIS ratios.

<b>Ratio</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>
#1 Net change in capital & surplus	(10.0)%	(12.0)%	(17.0)*%	(19.0)*%	(27.0)*%
#2 Gross change capital & surplus	0.0	14.0	(3.0)*	(3.0)	(10.0)*
#3 Net income to total income	(99.0)*	(75.0)*	(71.0)*	(70.0)*	(89.0)*
#4 Comm and Exp to Prem and Deposits	Discontinued				
#5 Adequacy of investment income	999.0*	999.0*	999.0*	999.0*	999.0*
#6 Non-admitted to admitted assets	0.0	0.0	0.0	12.0*	13.0*
#7 Total real estate & mortgage loans to cash & invested assets	0.0	0.0	0.0	0.0	0.0
#8 Total affl investments to capital & surplus	0.0	0.0	0.0	0.0	0.0
#9 Surplus relief	1.0	6.0	10.0	16.0	12.0
#10 Change in premium	999.0*	999.0*	282.0*	31.0	332.0
#11 Change in product mix	0.0	0.0	0.0	0.0	0.0
#12 Change in asset mix	1.0	6.0	10.0	16.0	1.3
#13 Change in reserving ratio	0.0	0.0	0.0	0.0	0.0

NLTC's IRIS ratio exceptions are consistent with the product development of its QuietCare product. Premium volume has been increasing during the examination period and its

parent NML has been maintaining surplus at adequate levels in compliance with the Capital Support Agreement, described earlier in the Affiliated Companies Section of this report.

#### **Growth of Northwestern Long Term Care Insurance Company**

<b>Year</b>	<b>Admitted Assets</b>	<b>Liabilities</b>	<b>Surplus</b>
1998	\$64,817,511	\$ 7,042,083	\$57,775,428
1999	77,783,769	12,075,028	65,708,741
2000	77,252,636	13,368,027	63,884,608
2001	73,614,115	11,892,707	61,721,408
2002	71,929,772	16,348,030	55,581,742

#### **Accident and Health**

<b>Year</b>	<b>Net Premiums Earned</b>	<b>Net Losses Incurred</b>	<b>Commissions Incurred</b>	<b>Other Expenses Incurred</b>	<b>Combined Loss and Expense Ratio</b>
1998	\$ 19,721	\$ 500	\$(151,508)	\$11,931,826	59,737.4%
1999	685,611	81,486	(1,319,430)	13,922,275	1,850.1
2000	2,621,652	859,489	(1,997,312)	18,752,935	671.9
2001	3,705,822	2,116,916	(3,872,265)	20,751,788	512.6
2002	11,346,876	3,682,413	1,858,283	23,902,608	259.5

The exceptionally high combined loss and expense ratios are reflective of the development costs in the launch of NLTC's long-term care insurance products, QuietCare and QuietCare RS. While surplus has declined by 3% during the examination period, NLTC appears to be adequately capitalized to support existing in force business and expected growth. Currently, NLTC has approximately 12,600 policies in force.

#### **Reconciliation of Surplus per Examination**

No adjustments were made to surplus as a result of the examination.

## VII. SUMMARY OF EXAMINATION RESULTS

### Compliance with Prior Examination Report Recommendations

There were two specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Invested Assets — It is recommended that the company amend its custodial agreements such that they contain provisions requiring:
  - a) that the custodian is obligated to indemnify NML for any loss of securities occasioned by the negligence or dishonesty of the custodian's officers or employees, or burglary, robbery, holdup, theft, or mysterious disappearance, including loss by damage or destruction; and
  - b) that in the event there is a loss of the securities for which the custodian is obligated to indemnify NML, the securities shall be promptly replaced or the value of the securities and the value of any loss of rights or privileges resulting from said loss of securities shall be promptly replaced.

Action — Compliance.

2. Capital Stock — It is recommended that the capital stock certificates be changed to reflect the current name and state of incorporation of the company.

Action — Compliance.

## **Summary of Current Examination Results**

### **Report of Executive Compensation**

The State of Wisconsin requires each Wisconsin domiciled insurer to file a supplement to the annual statement entitled, "Report of Executive Compensation", pursuant to ss. 601.42 and 611.63 (4), Wis. Stat. This report includes the total annual compensation paid to each director, the chief executive officer, and the four most highly compensated officers or employees other than the chief executive officer. In addition, the report requires disclosure of the compensation of all officers and employees whose compensation exceeds specified amounts. For an insurer of NLTC's size, the compensation of each officer or employee whose annual compensation exceeds \$80,000 must be disclosed.

The company failed to include certain unqualified compensation benefit amounts in the total compensation amount reported for certain executives. None of these omissions resulted in material understatements of reported compensation amounts. It is recommended that the company properly complete the "Report of Executive Compensation", as required by ss. 601.42 and 611.63 (4), Wis. Stat.

## **VIII. CONCLUSION**

NLTC has been a wholly owned subsidiary of NML since 1982. The company redomesticated to Wisconsin and changed its name in 1997. During the examination period the company introduced its first long-term care insurance product, QuietCare, in 1998 and, in 2002, NLTC introduced a new long-term care insurance product, QuietCare RS, that includes dividend participation. NLTC benefits from the well-established career agent distribution system of its parent, NML, as well as a capital support and guarantee of benefits agreement that maintains adequate capital levels during product development and refinement. The capital support and guarantee of benefits agreement also guarantees to the policyholders of NLTC the ability of NLTC to pay all policy benefits due on contracts of insurance.

As of December 31, 2002, NLTC had total assets of \$71,929,772, total liabilities of \$16,348,030 and policyholders' surplus of \$55,581,742. While surplus has decreased by approximately 3% during the examination period, NLTC appears adequately capitalized to support its current in force business and expected growth.

The examination resulted in one recommendation as the company was found to be in compliance with both recommendations from the previous report. The current recommendation related to the company's report of executive compensation. The examination acknowledged that the report was not materially impacted by the error.



## **IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS**

1. Page 21 - Report of Executive Compensation—It is recommended that the company properly complete the “Report of Executive Compensation”, as required by ss. 601.42 and 611.63 (4), Wis. Stat.

## **X. ACKNOWLEDGMENT**

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

<b>Name</b>	<b>Title</b>
Cruz Flores	Data Processing Audit Specialist
Sarah Salmon	Insurance Financial Examiner
Rick Anderson	Insurance Financial Examiner
Sarah Haeft	Insurance Financial Examiner
Don Gasser	Insurance Financial Examiner
Bill Genne	Insurance Financial Examiner

Respectfully submitted,

Tim Vande Hey, AFE  
Examiner-in-Charge  
Insurance Financial Examiner - Senior